

Message Text

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43

ACTION EB-03

INFO OCT-01 SS-14 ADP-00 NSC-10 NSCE-00 CIAE-00 INR-09

NSAE-00 RSC-01 T-01 OMB-01 H-01 L-01 PRS-01 PM-03

CIEP-01 COME-00 EUR-10 NEA-06 EA-13 AF-04 INRE-00

TRSE-00 IO-03 SCEM-01 RSR-01 /085 W
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P R 201300 Z MAR 73

FM AMEMBASSY THE HAGUE

TO SECSTATE WASHDC PRIORITY 918

INFO USMISSION EC BRUSSELS

USMISSION OECD PARIS

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY JIDDA

AMEMBASSY LONDON

AMEMBASSY OTTAWA

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TEHRAN

AMEMBASSY TOKYO

AMEMBASSY TRIPOLI

C O N F I D E N T I A L THE HAGUE 1292

LIMDIS

E. O. 11652: GDS

TAGS: ENRG

SUBJECT: POSSIBLE CONSUMER COOPERATION ON ENERGY

REF: A) STATE 44081 B) STATE 47501

SUMMARY:

WE TOOK OPPORTUNITY AFFORDED BY INSTRUCTION IN REFTEL B TO ELICIT
DUTCH VIEWS ON POSSIBLE CONSUMER GOVERNMENT COOPERATION DEALT
WITH IN REFTEL A. DUTCH THINKING IS ALONG LINES OF BURDEN SHARING
IN MANNER TO AVOID CONFRONTATION WITH OPEC, DEVELOPMENT OF
COOPERA-
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TIVE POLICIES TO MINIMIZE PRICE COMPETITION TO BE EXECUTED BY COMPANIES, AND SEARCH FOR CONVINCING, LONG- RANGE, ECONOMIC DEVELOPMENT APPROACH. END SUMMARY.

1. IN CONVERSATION WITH VAN RHIJN, DEPUTY DIRECTOR GENERAL OF ENERGY, WE EXPLAINED USG APPROACH TO YAMANI AND THEN ASKED WHAT FORM OF PROTECTION MIGHT BE COOPERATIVELY ORGANIZED BY CONSUMER GOVERNMENTS WHICH WOULD NOT BE INTERPRETED BY OPEC AS THREATENING A CONFRONTATION. VAN RHIJN INDICATED THAT DIRECTORATE GENERAL OF ENERGY HAD BEEN GIVING THOUGHT TO THIS QUESTION RECENTLY. THEY SEE TWO IMMEDIATE PROBLEMS: ONE BEING ACTION TO BE TAKEN IN CASE OF TEMPORARY SUPPLY- DEMAND IMBALANCE AND THE OTHER TO CONTROL " PRICE SCRAMBLE" RESULTING FROM PRESENT SITUATION.

2. TEMPORARY IMBALANCE MAY RESULT FROM INADEQUATE INVESTMENTS, COLD WINTERS, LOCALIZED POLITICAL DIFFICULTIES, OR OTHER CAUSES. DUTCH FEEL THAT EFFORT TO RESOLVE SUCH PROBLEMS SHOULD BE BASED ON BURDEN SHARING PROCEDURE TO AVOID BUYER COMPETITION. ACTIONS LEADING TO CONFRONTATION SHOULD BE AVOIDED AND PROBLEM SOLVED BY MOST EQUITABLE SOLUTION POSSIBLE.

3. " PRICE SCRAMBLE" IS IMMEDIATE BUT LONGER RANGE PROBLEM CONSISTING OF INDIVIDUAL EFFORTS TO GUARANTEE FUTURE SUPPLY, THUS BIDDING UP PRICES AND INCREASING POSSIBILITY OF CONFRONTATIONS. COOPERATIVE MEASURES SHOULD BE DISCUSSED AMONG GOVERNMENTS, VAN RHIJN SUGGESTED, LEADING TO GENERAL RULES TO BE EXECUTED BY COMPANIES. NOT ONLY MULTINATIONAL BUT ALSO NATIONAL COMPANIES SHOULD BE INVOLVED IN EXECUTION. SUCH AN ARRANGEMENT WOULD REQUIRE EXCEPTION FROM US ANTITRUST LEGISLATION, BUT THIS WOULD BE MORE THAN JUSTIFIED, HE THOUGHT, TO PREVENT OVERBIDDING. IT WOULD BE FAR BETTER THAN LICENSE SYSTEM SUCH AS FRENCH PROPOSE, WHICH WOULD INCREASE POSSIBILITY OF CONFRONTATION AND WOULD ALSO BE TIME- CONSUMING TO ESTABLISH AND THUS FALL SHORT OF A SOLUTION. CONVERSATIONS OF CONSUMER GOVERNMENTS SHOULD START WITH PROVISION OF FORECASTS OF DEMAND, FOLLOWED BY FORECASTS BY COMPANIES ON MAXIMUM EXPANSION OF PRODUCTION THEY COULD CONCEIVABLY PUT INTO EFFECT. WITH SUCH SUPPLY AND DEMAND FORECASTS, OPEC MIGHT WELL BE PERSUADED THAT COOPERATIVE APPROACH DID NOT REPEAT NOT INVOLVE CONFRONTATION AND THAT INCREASED PRODUCTION WAS THE ANSWER.

4. VAN RHIJN INDICATED ALTERNATIVE DANGER IN PRESENT SITUATION, NAMELY THAT OPEC GOVERNMENTS MIGHT HOLD BACK ON EXPANSION IN
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EXPECTATION OF RISING PRICES EVEN THOUGH SEVERAL PRESENTLY WANT INCREASE IN PRODUCTION. HE NOTED THAT SOME FEEL " OIL IN THE GROUND IS WORTH MORE THAN MONEY IN THE BANK".

5. AS FURTHER APPROACH FOR CONSIDERATION BY CONSUMER GOVERNMENTS, VAN RHIJN ASKED HOW LATTER MIGHT ASSURE OPEC COUNTRIES THAT IN LONG RUN THEY CAN CONTINUE THEIR ECONOMIC DEVELOPMENT AFTER THEIR OIL IS GONE. VAN RHIJN POINTED OUT THAT 30-50 YEARS IS NOT ENOUGH TIME TO INDUSTRIALIZE A BACKWARD COUNTRY. HE SURMISED THAT THIS PROBLEM IS IN BACK OF MINDS OF THINKING ARABS AND MAY PROVIDE IMPETUS TO THEIR PRESSURES FOR HIGHER PRICES NOW. IF THIS QUESTION COULD BE ANSWERED, PRICE AND SUPPLY PROBLEMS MIGHT BE MORE MANAGEABLE.

6. FOREGOING SHOULD BE READ IN CONJUNCTION WITH HAGUE SEPTEL REPORTING VIEWS OF ROYAL DUTCH SHELL CHAIRMAN WAGNER ON SAME SUBJECT.
MIDDENDORF

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